



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 7, 2005**

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The UAE's Oil Minister Mohammed al-Hamli said that current oil supplies were sufficient to meet world demand in the fourth quarter of 2005 and early next year.

#### **Market Watch**

Sen. Susan Collins and Sen. Herb Kohl said they wrote to US oil companies asking them to stop exporting middle distillate that could be used as heating fuel this winter. They said that by halting heating oil exports to all countries but Canada, it may help moderate the cost of fuel domestically.

In its World Energy Outlook through 2030, the IEA cut its baseline oil demand expectation by 2030 by 6% or 6 million bpd to 115.4 million bpd. It increased its baseline crude import price estimate by 2030, with the inflation adjusted nominal price increasing from \$36/barrel last year to \$65/barrel by 2030. It said that despite the easing of outright demand, the expected growth between 2003 and 2030 remains robust, with oil demand over the period increasing 46% and gas consumption increasing 77%. It expects the share of crude supplies from OPEC to increase 11 percentage points from 2004 to 50% in 2030, with output of 50.2 million bpd. Meanwhile non-OPEC supplies are expected to fall 1.3% over the period to about 46 million bpd. The IEA also stated that the world's oil refiners would need to spend \$500 billion in the next 25 years to meet demand. In the short term, refiners are expected to struggle to keep up with rising requirements for gasoline, diesel and jet fuel, keeping plant utilization rates and oil prices high until 2010 at the earliest. It estimated that by 2030, capacity in developing countries would reach 55.7 million bpd, surpassing a projected 51.8 million bpd in developed countries. The IEA said China was likely to spend \$94 billion in the next 25 years to more than double its refinery capacity to 14.6 million bpd by 2030 from 6.1 million bpd last year. The Middle East is expected to spend \$89 billion to increase its capacity to 12.9 million bpd from 7 million bpd. According to the IEA, a total investment of \$17 trillion in all energy infrastructure throughout the world is required to help meet a projected 50% increase in world energy demand between now and 2030. It said the nominal oil price could increase to \$86/barrel by 2030 if the investment is delayed. The deferral of investment would also result in significantly lower oil and gas production. A lack of growth in the number of world refiners able to convert heavy oil products to lighter products will support strong industry margins. It said that following strong growth in demand for refined products in recent years, spare capacity and production flexibility are rapidly diminishing. Meanwhile, Fatih Birol, the IEA's chief economist warned that governments in the Middle East may constrain energy production investment in a quest for higher prices. It said depending on a volatile region for supplies is unwise and urged the industrialized countries to stop relying on their oil. Separately, the IEA said Iran could fail to meet its oil production targets if it does not gain access to foreign technology and capital. IEA Deputy Executive Director, William Ramsey said he believes investors will be concerned by Iran's hardline rhetoric coming from the country's new government. The IEA also reported that plans by Libya to increase its oil production in the coming years could be hindered by slow economic reforms and undesirable investment terms.

The EIA reported that the US retail average price of diesel fell by 17.8 cents/gallon to \$2.698/gallon in the week ending November 7<sup>th</sup>. The EIA also reported that the average price of gasoline fell by 10.4 cents/gallon to \$2.376/gallon on the week.

According to the Lundberg Survey, retail gasoline prices fell by an average of 23 cents/gallon to \$2.45/gallon in the two weeks ending Friday.

### Refinery News

Venezuela's Cardon refinery suffered a fire at one of its crude distillation units on Monday. Officials at the refinery were not immediately available for comment.

Turkey is planning to build a new refinery at its southern port of Ceyhan. The plan is likely to be discussed when Russian President Vladimir Putin visits Turkey next week.

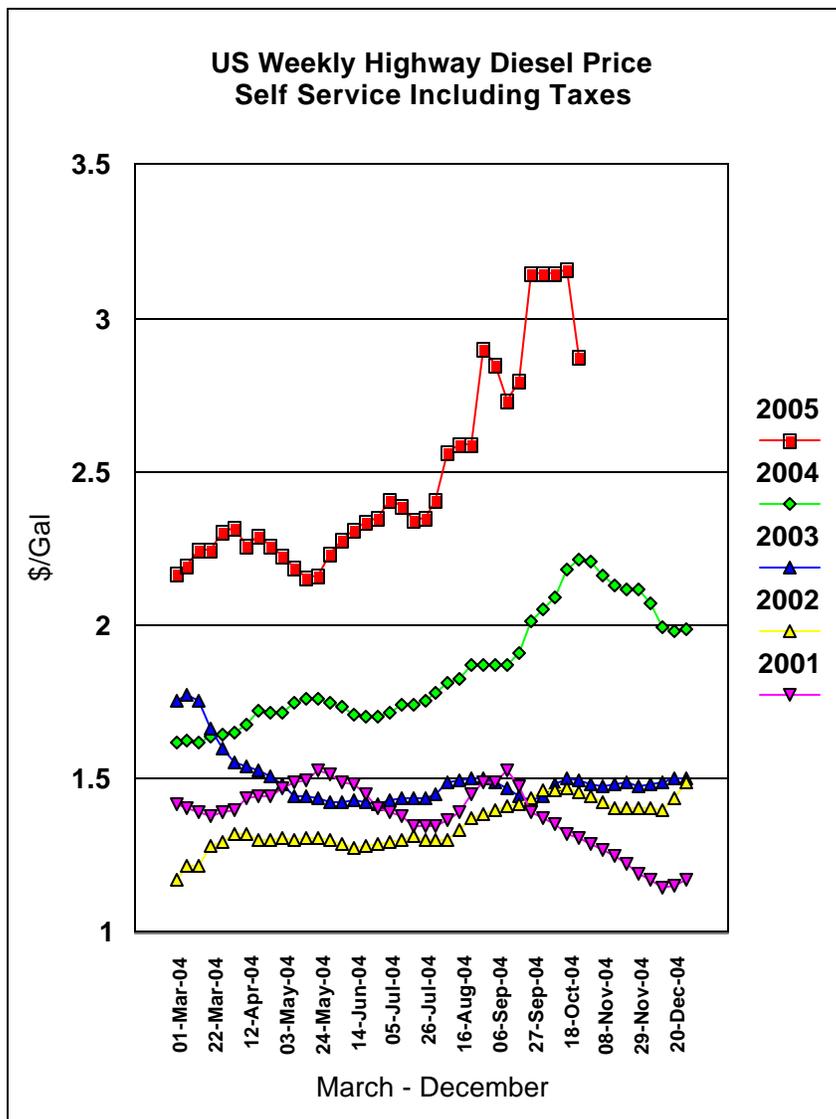
South Korea's SK Corp is increasing its gasoline production to meet rising regional demand for cleaner burning fuel. It is planning to upgrade its production capacity also in view of the possibility that South Korea may further tighten the specifications of its motor fuel. The sulfur content for gasoline will be cut to 50 parts per million from 130 ppm and for diesel to 30 ppm from 430 ppm. Separately, SK Corp plans to export about 200,000 metric tons of fuel oil for December loading. It exported a total of 310,000 tons in November and 250,000 tons in October.

### Production News

According to the MMS report, US Gulf of Mexico oil production shut in by the hurricanes improved slightly over the weekend. It reported that a total of 773,097 bpd of crude production remained shut, down from 780,633 bpd on Friday.

Two tankers collided in Venezuela's Lake Maracaibo shipping lane on Sunday. The shipping lane was shut for about three and a half hours on Sunday evening while the tankers were removed from the shipping lane. The incident caused no fuel spills or shipping delays.

EnCana Corp said it was developing plans to increase production from its recoverable oilsands resources, which it estimates to be 5 billion to 10 billion barrels.



OPEC's news agency reported that OPEC's basket of crudes increased by 80 cents/barrel to \$54.25/barrel on Friday. It also reported that OPEC's basket of crudes fell by 13 cents/barrel to \$53.19/barrel in the week ending November 3.

### Market Commentary

The oil markets gapped lower this morning as unseasonably warm temperatures lingered into the second week. The crude market gapped down from 60.50 to 59.75 and quickly posted a high of 59.95. The market continued to trend lower early in the session. It breached its previous low of 58.75 and posted a low of 58.60 early in the session. The oil market however bounced off its low and retraced most of its losses amid the sharp recovery in natural gas prices. The market settled down \$1.11 at 59.47. Volume in the crude market was good with over 240,000 lots booked on the day. The product markets also ended in negative territory but well off their lows. The gasoline market settled down 5.19 cents at 155.61 after it erased its earlier losses. The market gapped lower on the opening from 159.10 to 157.10. It partially backfilled its gap as it quickly traded to a high of 158.50. The market continued to sell off and extended its losses to over 7 cents as it traded to a low of 153.50. However the market retraced some of its losses ahead of the close. Meanwhile, the heating oil market also gapped down from 178.20 to 176.00 and sold off to a low of 174.65 amid the unseasonably warm weather. However the market backfilled its opening gap as it rallied to a high of 179.00 ahead of the close amid the sharp rally in the natural gas market, in light of a weather forecast change. Volumes in the product markets were good with 53,000 lots booked in the gasoline and 46,000 lots booked in the heating oil.

The oil market continues to trend lower as it remains in its recent downward trend. The market on Tuesday may look to backfill its gap from 59.95 to 60.50. The market is seen finding further resistance at its previous highs of 61.60 and 61.85. Meanwhile support is seen at 58.90 followed by its lows of 58.60 and 58.30.

More distant support is seen at 56.58, basis its support line.

| <b>Technical Analysis</b>         |   |   |
|-----------------------------------|---|---|
|                                   | <b>Levels</b>   | <b>Explanation</b>  |
| <b>CL</b> 59.47, down \$1.11      | <b>Resistance</b><br>61.60, 61.85<br>59.95 to 60.50             | Previous high<br>Remaining gap (November 7th)                   |
|                                   | <b>Support</b><br>58.90, 58.60<br>58.30, 56.58                  | Monday's low<br>Previous low, Basis support line                |
| <b>HO</b> 178.61, down 1.01 cents | <b>Resistance</b><br>186.00 to 187.50<br>179.00, 181.75, 183.50 | Gap (October 31st)<br>Monday's high, Previous highs             |
|                                   | <b>Support</b><br>178.00, 176.00<br>174.65                      | Monday's low  |
| <b>HU</b> 155.61, down 5.19 cents | <b>Resistance</b><br>159.26, 162.70, 163.00<br>158.50 to 159.10 | Basis trendline, Previous highs<br>Remaining gap (November 7th) |
|                                   | <b>Support</b><br>153.50<br>153.00, 151.80                      | Monday's low<br>Previous lows                                   |